

**FIFTH INTERNATIONAL  
CONGRESS  
ON  
ACCOUNTING**

**Berlin, September, 1938**

**PAPERS GIVEN IN ENGLISH**

The Papers submitted to the Congress were of two kinds—General and National. One General paper was submitted on each of the specified subjects, correlating and commenting upon the several National papers on that subject.

We give in this supplement to ACCOUNTANCY extensive summaries of some of the papers written in English. The following four papers were similarly summarised in a supplement given with the October issue:—

Auditing by and for Tax Authorities	- - -	by A. Stuart Allen
Auditing of Concerns	- - - - -	by Charles J. G. Palmour
Methods of Computing Cost and Control of Prices by Public Authorities	- - - - -	by John F. Forbes
Other Auditing and Advisory Work	- -	by E. Cassleton Elliott

## CONTENTS

	PAGES
Audit of Annual Accounts - - by Richard A. Witty	3—8
Auditing of Concerns - - - by Stuart R. Cooper	9—13
Matters Affecting the Profession in Great Britain and Ireland by Sir Nicholas E. Waterhouse	14—18
Methods of Computing Cost and Control of Prices by Public Authorities - by Sir Harold Howitt	19—27

# AUDIT OF ANNUAL ACCOUNTS\*

by

**RICHARD A. WITTY,**

**Incorporated Accountant**

## LEGAL PRINCIPLES AFFECTING AUDIT

The interpretation of the law affecting the auditing of accounts has led to many legal actions. The following is a summary of the decisions affecting auditors in the more important cases :—

### (a) *The Basis of Liability*

In numerous cases the principle is laid down that an auditor is expected to bring to bear reasonable skill, care and caution in the performance of his task. It is a general principle of law that a professional man who holds himself out as ready to perform services for reward thereby gives an implied guarantee that if the work is entrusted to him it will be carried out competently and with the exercise of reasonable care and skill. If it becomes necessary to consider whether his performance of the duties undertaken has been without negligence, it will be measured by the standard practice of the profession as applied to the particular circumstances in evidence by experienced practitioners. If the auditor is negligent in his work and as a consequence of such negligence his employer suffers loss, the auditor may be held responsible in damages.

### (b) *Verification of Assets*

*Cash.* It is the duty of the auditor to verify the cash balance ; he has the same duty to discharge in regard to the verification of the cash as he has with regard to the verification of the securities (*London Oil Storage Co., Ltd. v. Seear, Hasluck & Co., 1904*).

*Stock.* It is not the duty of the auditor to take stock but he must make reasonable and proper investigation of the stock sheets and call the attention of his employers to any suspicious items. (*Henry Squire (Cash Chemist), Ltd. v. Ball, Baker & Co., 1911*). In the *Kingston Cotton Mill* case (1896) it was said that the auditor was a watchdog but not a bloodhound. He was justified in believing tried servants of the company in whom confidence was placed by the company. He was entitled to assume that they were honest and to rely upon their representations, provided he took reasonable care. If there was anything calculated to excite his suspicion he should probe it to the bottom, but in the absence of anything of that kind he was only bound to be reasonably cautious and careful.

*Book Debts.* The auditor was held responsible in damages where the book debts appearing on the balance sheet included a number of debts which were statute barred and where the auditor had failed to qualify his report. (*A. E. Green & Co. v. Central Advance and Discount Corporation, Ltd., 1920*.)

*Investments.* It is the duty of a company's auditor in general to satisfy himself that the securities of the company in effect exist and are in safe custody and the auditor is not necessarily justified in accepting the certificates of banks or persons in whose possession such securities may have been placed. (*City Equitable Fire Insurance Co., Ltd., 1925*.)

### (c) *Auditor Dissatisfied with Accounts*

An auditor is guilty of misfeasance who, when dissatisfied with the accounts of a company, does not plainly draw attention in his report to the grounds for his dissatisfaction. This was the general effect of the judgment in the case of the *London and General Bank, Ltd.* (1895), and the principles laid down in that judgment as to the discharge of the duties of an auditor were so important and sound that they may be said to hold good at the present time.

\* A National Paper.

(d) *Secret Reserves*

The case of *Rex v. Kylsant and Another* (1931) created intense interest in the accountancy profession. It was a criminal trial of the chairman and auditor of the Royal Mail Steam Packet Co., the charge against the auditor being that of aiding and abetting the chairman in publishing certain annual reports of the company knowing them to be false and that such annual reports concealed from the shareholders the true position of the company, with intent to deceive. The company had made considerable profits down to 1920, after which its earnings fell away; this fact was, however, concealed by bringing into the profit and loss account certain secret reserves for taxation no longer required and the accumulated profits of subsidiaries. It was not suggested that the amounts were not properly distributable as dividends, but that the facts of the case should have been disclosed to the shareholders. The auditor was acquitted, but the case has led to considerable controversy amongst members of the accountancy profession as to the propriety of undisclosed or secret reserves and as to the form and contents of the profit and loss account.

(e) *Divisible Profits and Dividends*

The cases under this heading are mostly actions against companies and the auditors are not directly concerned. The principles laid down in the various cases, however, are of vital importance to all auditors because of the rule that no dividend may be distributed except out of profit. The various decisions may be summarised as follows:—

1. It is necessary to provide for the depreciation of floating assets before profits can be distributed by way of dividend.
2. It is not necessary in all cases to provide for the depreciation of fixed or wasting assets provided that there are sufficient assets to cover the liabilities.
3. Where a debit balance on profit and loss account has arisen partially through providing for depreciation of fixed assets then it is not necessary to make good those losses before paying dividends out of future profits.
4. Where depreciation has been written off an asset in excess of the true requirements it may be written back to profits upon a *bona fide* re-valuation of that asset.

(f) *Accountant's Lien on Books and Papers*

It may be said in general terms that an accountant has a lien in respect of the work which he may have done in the books, *e.g.*, writing them up, but an auditor has no such lien in respect of his work as auditor. No question of a lien over the statutory books of a limited company can arise.

## SCOPE OF EXAMINATION AND METHODS OF AUDIT

A booklet has recently been published under the auspices of the Research Committee of the Society of Incorporated Accountants and Auditors on "Standard Practice in Auditing," which summarises the current practice of professional auditors, and the following notes embody some of the details contained in that volume. These notes relate primarily to the accounts of a limited company, but the general procedure applies equally well to the accounts of a private concern, subject, in the latter case, to the terms of any special arrangement between the proprietors and the auditor and to the exclusion of references to the requirements under the Companies Act.

In the case of a company the auditor's first duty is to inform himself of the law governing the concern, whether contained in statute, in a Royal Charter or in the company's Memorandum and Articles of Association. He is not a lawyer, but he must exercise reasonable care and skill in considering whether the relevant law has been complied with. His duty is (1) to examine the accounts of the company, (2) to report whether the balance sheet is in accordance with the books of the company, (3) to make such examination of the books and of the information available in support of the entries therein as will enable him to see that the balance sheet which agrees with the books is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the



best of his information and the explanations given to him and (4) to report whether he has obtained all the information and explanations he has required.

In order to be able to report that the balance sheet gives a true view of the position, the auditor must satisfy himself :—

- (a) That the assets shown in the balance sheet are in hand and free of undisclosed charge.
- (b) Whether any other assets, not in the books, ought to have been in hand.
- (c) That the assets so stated were subject to a valuation, the basis of which is stated and has not been subject to change since the last account without indication of the change.
- (d) Similar satisfaction must be reached in relation to liabilities, that the liabilities shown are liabilities of the company, that none is omitted and that they are neither materially over-stated nor materially under-stated.
- (e) That the account of profits and losses is properly stated.

### VALUATION AND VERIFICATION OF ASSETS

The title deeds of property should be inspected. The auditor accepts no responsibility for the validity of these documents but he will ascertain that the deeds appear to refer to the property in question and to be genuine, to be in order, and to vest the property in the client.

If the property is subject to mortgage, the deeds will be in the hands of the mortgagee and his certificate to that effect will be obtained. The auditor will see that due disclosure of the mortgage and its incidence is made on the balance sheet.

If ships are owned, the register will be inspected, or the Board of Trade certificate obtained and it will be seen that there is no registered charge on the ship, or that any such charge is disclosed. Ownership of new vessels will be confirmed by inspection of bill of sale.

In the case of other assets the auditor will obtain the appropriate verification.

The valuation may be on a purely historical basis, *e.g.*, "at cost, less depreciation provided"; it may, or may not, represent an endeavour to reach a valuation of the assets of the business as a "going concern."

The responsibility for the valuation rests with the directors, who state the account; the auditor is concerned that the basis adopted shall be disclosed with sufficient clearness and that it shall not be changed from year to year without due disclosure of the change.

The Companies Act, 1929, by Section 124, provides that the balance sheet shall be so stated as to distinguish fixed and floating assets, and shall state how the values of the fixed assets have been arrived at. Fixed assets may include investments in subsidiary and associated companies.

### STOCK AND WORK IN PROGRESS

Stock and work in progress may be stated on the basis of a physical count or measurement or of an abstraction of book records.

The auditor is not a stocktaker, but he will enquire into the system of enumeration and will see that the sheets are authenticated by the signatures or initials of the officials responsible for the various sections of the work and that the aggregate totals are certified by a responsible official of the company or by a stocktaker approved by the management.

Modern stock or costing records, when available, will be examined and used in confirmation of the enumerations, special attention being given to deliveries into or out of stock at or near the date of the stocktaking.

Where the statement is based upon book records the auditor will satisfy himself that the reliability of the records has been duly tested and certified by a responsible official and that adequate comparisons are made from time to time of sections of the records with the actual stock.

The process of valuation is not within the auditor's competence but he should satisfy himself that the valuations have been made on principles which meet with his approval, and which do not vary from year to year without disclosure thereof; he will test, by examination of inwards invoices, by cost records and in other appropriate ways available

to him, that the valuations, upon the bases stated, appear to be reasonable. If, in the auditor's opinion, the basis of valuation is either materially above or materially below market values, he should see that the basis taken is clearly stated.

Similar principles determine the practice in respect of work in hand. The auditor does not accept responsibility for this but satisfies himself that the principles of statement and valuation meet with his approval and that the result is certified by a responsible official.

Calculations and additions are within the sphere of the auditor and he will satisfy himself in regard to these.

### DEBTORS AND CREDITORS

The auditor will make a careful and complete scrutiny of the ledger accounts of debtors, giving consideration to the make-up of the balance shown as due to the business at the balance sheet date. He will make enquiries on such matters as appear to him to require explanation; he will enquire into the system of record in regard to both debits and credits to these accounts and satisfy himself that it can be relied upon.

Consideration will be given to the value which can be set upon the debts individually and in the aggregate and if the date of the auditor's examination is somewhat later than the date of the balance sheet, the subsequent experience of the account, so far as it is disclosed in the accounts he examines or information which comes to him, will be helpful.

In the case of creditors, the auditor will satisfy himself that all outstanding liabilities have been included. For this purpose he will consider the general system of the business and satisfy himself that he can accept it as ensuring due record of liabilities. Invoices received after the closing of the accounts for the year should be perused for any charges relative to the period under review. Creditors' statements received at or after the date of account should be inspected, at any rate in selection. The auditor will bear in mind that in certain trades it is the custom to allow forward dating of invoices, so that goods may be in the receiver's stock which have not yet passed through the books; in such cases due entry should have been made in the suppliers' books, although the payment date will be calculated by reference to the "dating" arrangement. The practice of instalment buying in either of its forms, by which assets may be in possession without full entry in the books, must also receive consideration in appropriate cases.

Bills receivable will be inspected and enquiry will be made as to any which have matured since the balance sheet date, and in regard to any bills under discount in respect of which there may be a contingent liability.

Where any liability is secured on any assets of the company other than by operation of law (as, e.g., a solicitor's lien on client's papers in his possession or on monies recovered in an action), the balance sheet must include a statement that the liability is so secured.

### BANK AND CASH

Bank balances will be verified by banker's certificate direct to the auditor and cash in hand verified as found necessary; both should be verified at the same date.

### INVESTMENTS IN GENERAL

Investments in general will be verified by inspection of documents of title or of a certificate from the Registrar in the case of inscribed stocks, etc. The auditor must satisfy himself that the documents of title are in safe and proper custody. Considerations as to certificates of custody which might properly be accepted were reviewed in *Re City Equitable Fire Insurance Co., Ltd.* (1925).

Investments may be:—

- (a) Held either for income production or for the temporary investment of funds not currently needed in the business. These should be in easily marketable securities and regarded as current assets; they should be stated at market value or cost, whichever is lower, or cost value should be stated and provision made in the event of a fall in value.

- (b) In the nature of fixed assets, not capable of immediate realisation, the typical examples being shares in associated or subsidiary companies.

### INVESTMENTS IN ASSOCIATES OR SUBSIDIARIES

Generally accepted accountancy principles in relation to investments in associates or subsidiaries are :—

- (a) It is considered desirable in most cases that the accounts of a holding company should disclose the assets and liabilities of the group in sufficient detail to enable the shareholders to obtain a true view of the position of the group as a unit, although the practice cannot be described as universal. In reviewing this statement the auditor will not allow himself to overlook the fact that the capital subscribed by the members is not represented by certificates of shares in a subsidiary or sub-subsidiary, but by the real values wherever they are.
- (b) Regard must be had to the fact that the group is not a legal unit and creditors of subsidiaries will not be legally entitled to have recourse, for debts due to them, to other than the assets of the company to which they have given credit. A true view of the position involves attention to both (a) and (b).
- (c) In the event of there being minority shareholders in a subsidiary, appropriate separate consideration must be given to their interests.

The application of these principles to particular circumstances may frequently require careful and detailed consideration and the exercise of reasoned judgment; especially will this be the case in relation to foreign subsidiaries. In cases where profits available in a foreign country are incapable of transfer to the country in which the capital interest is held, such untransferable balances cannot be made available for distribution and should not usually be brought to account until they can be transferred.

The statute requires that the balance sheet of a holding company must show as separate items: (a) the aggregate amount of shares in a subsidiary company (b) the aggregate amount owing by the subsidiary or subsidiaries and (c) the aggregate indebtedness of the holding company to a subsidiary or subsidiaries. There must also be a statement by the directors annexed to the balance sheet showing (a) how the profits and losses of subsidiaries have been dealt with in the holding company's accounts, (b) the extent to which losses by subsidiaries have been provided for, or taken into account, and (c) particulars of any qualifications in the reports of auditors to subsidiary companies.

### CONTINGENT LIABILITIES

Commitments of any kind which may become direct liabilities, *e.g.*, bills receivable negotiated or under discount, agreements of guarantee on behalf of associates or others, litigation, or investments in partly paid shares—must be adequately disclosed, or non-disclosure may invalidate the whole “view of the company's affairs.”

These liabilities may be indicated in books of account or in minute books, or may not come within the auditor's knowledge. In appropriate cases the auditor may deem it necessary to obtain a signed statement from the responsible officials of the company as to the complete disclosure of known liabilities, whether actual or contingent.

Contingent liabilities should be indicated by a note on the face of the balance sheet, whether there appears to be any likelihood of the particular liability becoming a burden or not. If the contingency at the balance sheet date is known to the auditor to have become an actual charge before the date at which his report is completed, that fact should be stated.

### SHARE CAPITAL

The duty of auditors as defined in the Act in relation to the records of shares and stock in issue by the company is that they must examine the register of members and report whether, in their opinion, the balance sheet is in accordance with it. They must confirm the entries therein with other books which record the receipt of capital monies by the company and must satisfy themselves as to the authorisation of entries upon the register and in respect of alterations therein, further that the aggregate number of shares and the

aggregate paid-up value of the shares appearing in the register agree with the figures shown in the balance sheet, for which purpose they will examine a list of the balances shown as representing the holdings of the individual members.

#### EXAMINATION OF THE PROFIT AND LOSS ACCOUNT

There is no prescription in the Act as to what information shall be disclosed by the profit and loss account but the Act requires the directors to present a balance sheet and an account of profits and losses.

The auditor reports to the company on the balance sheet presented by the directors and on the accounts examined by him ; the auditor must give consideration to the profit and loss account as an integral part of the " view of the company's affairs " presented by the directors and the profit and loss account must not be so stated or worded as to vitiate that view as a true and correct one.

#### CLIENT'S INSTRUCTIONS

As a matter of convenience the subject is dealt with at the end of the paper, although in practice it is of the first importance and demands consideration before any work is undertaken. At the Liverpool Conference of the Institute of Chartered Accountants in England and Wales held at Liverpool in October, 1937, Mr. H. M. Barton, F.C.A., described the question of client's instructions as one of the earliest pitfalls with which the practising accountant is faced. He pointed out the prime necessity of having the client's precise instructions actually recorded. The ideal course to be pursued is to arrange for the client to put his instructions in writing in the form of a letter and for the accountant to reply suitably in a letter of acceptance. Such a course, however, rarely proves possible in practice, partly because neither the client nor the accountant may be able to state specifically at the outset what work will be required except in the case of an annual audit. In the majority of cases of statutory and other undertakings the duties are sufficiently defined by statute and by common practice. In the case of private firms, however, it is necessary to use the utmost care in seeing that the client's instructions are perfectly clear, particularly where the work to be undertaken is of a restricted nature. The legal decisions on this point have all been decided on the precise circumstances of the particular cases involved, but it may be pointed out that in a very large number of cases claims for negligence and breach of duty advanced against accountants could not have been sustained or could have been defended with greater prospect of success if there had been in existence some reliable record of the nature of the contract. It may be added in particular that instructions to prepare accounts but not to audit them would not necessarily free the accountant from the liability to verify the assets included in the client's balance sheet.



# AUDITING OF CONCERNS\*

by

**STUART R. COOPER**

**Chartered Accountant**

I understand "Concern" (*Konzern*) to mean what is commonly known in English as a holding company, that is to say, a company which is itself not primarily engaged in trading but which trades through subsidiary and allied companies in which it holds all or a substantial proportion of the issued share capital. I propose to limit myself to the larger type of purely holding company—which may be termed "international" inasmuch as it may hold interests not only in the country where it is registered but in many other countries—and to deal with "auditing" in its broader aspects.

## EXISTING LAW RELATING TO THE ACCOUNTS OF HOLDING COMPANIES IN GREAT BRITAIN

Prior to the Companies Act, 1929, no specific legislation existed in Great Britain with regard to the information that should be given to shareholders in holding companies as to investments in other companies. The special provisions incorporated in the Companies Act, 1929, may be briefly summarised as follows:—

- (1) There must be disclosed under separate headings in the balance sheet of the holding company the following:—
  - (a) The aggregate book value of the shareholdings in subsidiary companies.
  - (b) The aggregate of the amounts owing by subsidiary companies to the holding company.
  - (c) The aggregate of the amounts owing by the holding company to subsidiary companies.
- (2) The directors are required to annex to the accounts of a holding company a statement showing the basis on which the aggregate profits and losses of subsidiary companies have been dealt with in the accounts of the holding company and/or the subsidiary companies, together with particulars of any "qualifications" in the reports of the auditors of the subsidiary companies.
- (3) A subsidiary company is defined as one in which the holding company holds one or more shares and further holds either more than 50 per cent. of the issued capital of the subsidiary company (or such a proportion of the issued capital as gives voting control) or has the power directly or indirectly to appoint the majority of the directors.

While I think that generally speaking the above conditions have worked reasonably well in practice, I have found cases where it has been impracticable for the directors to give anything more than a very general statement under Paragraph (2) above, and I am therefore inclined to the view that its conditions are not sufficiently far-reaching to be of real value to shareholders notwithstanding the fact that, in theory at all events, it was a step in the right direction.

With regard to Paragraph (3) I have, however, found that the provisions do not always work satisfactorily in practice as, owing to the wording of the relevant section, an anomaly can arise from the fact that a holding company must hold at least one share in a company for that company to come within the technical definition of a subsidiary company. From this, as I understand the position, it follows that a company may hold all the capital of another company, which in turn holds all the capital of a third company, but the third company is not a subsidiary of the first company as the first company holds no shares in the third company. This seems clearly contrary to the intention of the Act.

Further, under certain circumstances a company may, while only holding a small

\*A National Paper.

proportion of the capital of another company, yet have the right to nominate the directors of that company, with the result that the second company is technically a subsidiary of the first, although the first may be entitled only to a small share in the equity and profits of the second. Such a position can cause considerable difficulty when stating how the profits of the second company have been dealt with in the accounts of the first company.

Notwithstanding the above comments, I have, as stated above, found that the provisions of the Act have worked reasonably well in practice and that, although they are capable of being improved, they have to a considerable extent achieved their object.

#### SUGGESTIONS AS TO THE FORM OF PUBLISHED BALANCE SHEETS OF HOLDING COMPANIES

While I am willing to concede that in many cases the information given in the accounts as a whole, including the directors' report and any other annexed schedules, is inadequate, it seems to me that the balance sheet of a holding company, as such, is precluded by its nature from giving any readily understandable picture of the position of a large holding company. I feel strongly that a simple form of balance sheet is to be preferred as being less likely to mislead shareholders.

It seems to me that a balance sheet can only present a view of the capital, reserves, liabilities and assets of any company as at a given date, and as the assets of a holding company, apart from debtors, cash and securities, normally consist only of holdings in other companies, which may or may not fall within the technical definition of subsidiary companies, I cannot see how a statutory balance sheet can be designed to show more information than its own capital, debentures and loans (if any), reserves, amounts due to subsidiary and allied companies, creditors and profit and loss balance, if in credit, on the one side ; and holdings in subsidiary and allied companies, amounts due from subsidiary and allied companies, debtors, securities and cash, on the other side.

I am not suggesting that shareholders are not entitled to and should not receive considerable additional information, but I feel that it is impracticable to endeavour to give such information in the balance sheet as such, and I will therefore give later my suggestions as to what further information ought to be given to shareholders and how such information can be disclosed.

As I think that it is generally accepted that holdings in subsidiary companies are fixed assets, *i.e.*, assets held in order to earn profits and not held for subsequent conversion into cash, it follows, I feel, that normally their disposable value at any balance sheet date does not call for consideration. I consider that the responsibility of an auditor is limited to satisfying himself that holdings in subsidiary companies are properly described in the balance sheet of a holding company, *e.g.*, "at cost," "at cost less reserve," or, should the holding company adopt the principle, to which I refer later, of bringing into its profit and loss account profits and losses of subsidiary companies, "at cost together with undistributed profits less losses" or some other similar wording.

Further, in cases where directors of a holding company form the opinion that specific holdings in subsidiary companies are, from a commercial point of view, overvalued, I think that the book value of such holdings should be maintained in the books of the holding company and that any provision made against such book value should be carried in the books of the holding company to a reserve against holdings in subsidiary companies which could be deducted in the published balance sheet from the aggregate value of such holdings. Any sum so carried to reserve should, I feel, be shown as an appropriation of profits and not charged against profits without disclosure, as otherwise the figure of profits would be misrepresented.

It is, I think, desirable to show dividends receivable from subsidiary companies separately from other accounts with subsidiary companies, as amounts due are normally represented in the main by fixed assets or working capital of the subsidiary companies. Further, amounts due to subsidiary companies frequently consist of surplus funds deposited with the holding company by over-capitalised subsidiary companies and these funds are,

in turn, lent by the holding company to other subsidiary companies which are short of working capital. It seems to me to be preferable to separate dividends receivable, which have a definite effect on the liquid position of the holding company, from the other accounts with subsidiary companies as, generally speaking, these accounts show on balance the amount by which the aggregate working capital required by the subsidiary companies exceeds or is less than their share capital.

Normally, advances to subsidiary companies cannot be settled in cash and it follows that the greater portion of such advances is as much of a capital nature as the actual holding of shares and can as a rule only be settled by the holding company accepting shares in the subsidiary companies in satisfaction of the amounts due.

#### SUGGESTIONS AS TO PUBLICATION OF CONCERN PROFITS AND OTHER ESSENTIAL INFORMATION

I think all will agree that without information on the earnings of the combine or its general financial position the balance sheet of a holding company is of little use to shareholders and I therefore feel that directors of holding companies should take steps to furnish shareholders with adequate information.

Shareholders require to know the amount of capital which the holding company has invested in subsidiary and allied undertakings and this, I feel, can be obtained simply from the published balance sheet, provided that it is prepared in a concise form, as the capital invested consists, normally, of the aggregate of the book value of the holdings in subsidiary and allied companies, together with advances made to them by the holding company less any sums owing by them to that company.

Next, I feel that shareholders require to know and are entitled to know the aggregate profits earned or losses incurred by the holding company and its subsidiary and allied companies, as in the absence of this information the accounts submitted to them are to all intents and purposes meaningless. I hope and believe that the days have passed when it can be seriously contended that shareholders are only entitled to know the proportion of the aggregate profits which directors in their wisdom or otherwise elect not to conceal. If the principle is adopted of disclosing in the published accounts only that proportion of the aggregate profits of the combine which directors have arranged for the subsidiary and allied companies to declare by way of dividend in favour of the holding company, it follows that profits disclosed need have no relation to profits actually earned and that profits retained in prosperous years in the accounts of subsidiary and allied companies may be applied by those companies in paying in less prosperous years dividends in excess of the profits earned by them.

I feel that it is the duty of an auditor in cases where the profits transferred to the holding company by way of dividend differ materially from the profits earned, where losses of subsidiary companies have not been provided by the holding company, or where dividends from subsidiary companies have been inflated out of profits retained in previous years, to disclose the position to the shareholders, unless the position is clearly disclosed in the accounts. Although British law provides that the basis adopted for dealing in the accounts of a holding company with profits and losses of subsidiary companies must be disclosed to shareholders, it places no obligation on directors to disclose the amounts of profit retained by subsidiary companies or of losses of subsidiary companies not provided by the holding company. This, I submit, does not absolve an auditor from his responsibility for ensuring that shareholders receive adequate information.

As in my view it is desirable that full disclosure of the earnings of a combine should be given in the published accounts, I venture to submit that there are at least two methods by which this object can be achieved.

The first and the more obvious method is to prepare the profit and loss account of a holding company on the same basis as that adopted in preparing the profit and loss account in a consolidated balance sheet; that is to say, to bring to credit of profit and



loss all profits of wholly owned subsidiary companies and to provide in the profit and loss account for all losses incurred. In the case of subsidiary companies not wholly owned and allied companies, the holding company should take credit for or provide the proportion of the profit or loss of the company concerned to which its holding in the company entitles it. The adoption of the above procedure ensures that shareholders see in the accounts submitted to them the profit earned by the combine during the year, and I have found in practice that the procedure works satisfactorily.

As an alternative to the procedure suggested above, should it be considered prudent to include in the profit and loss account of the holding company only that proportion of the profits of the subsidiary companies which is transmitted to the holding company in dividends, there may be annexed to the balance sheet of the holding company a statement which can, and in my view should, be certified by the auditors, showing the aggregate profits of the combine for the year. From this figure is deducted the profits retained in the accounts of the subsidiary companies, leaving as a balance the aggregate dividends declared by the subsidiary companies and brought into the books of the holding company. To this balance is added the balance on profit and loss account (if in credit) brought forward from the previous year by the holding company and from the total so arrived at are deducted the dividends paid to the shareholders of the holding company and any appropriations to reserves, leaving the balance on profit and loss account, which is carried forward by the holding company to the following year. The adoption of this procedure gives substantially the same disclosure to shareholders as the preparation of a consolidated profit and loss account and, in my experience, also works satisfactorily in practice.

There are a number of advantages and disadvantages, mainly theoretical, to both the above suggested forms of procedure, but I do not think that the majority are of sufficient importance to warrant special comment. The principal advantage of the procedure first mentioned is that the consolidated profit is actually brought into the books and accounts of the holding company, but a possible disadvantage is that the dividends transferred from the subsidiary and allied companies to the holding company need not be disclosed and that consequently the holding company may declare dividends out of profits which it has not encashed.

In the case of a holding company, all of whose subsidiary companies operate in the same country as the holding company, I have no particular preference for either of the above methods of publishing the aggregate profit, but in the case of large holding companies, particularly should they be international, I am inclined to think that the second method is preferable, particularly as it is more in line with what I understand to be the practice most commonly adopted outside Great Britain.

A further advantage in the second method is that it does not entail alterations from year to year in the values at which holdings in subsidiary companies are entered in the balance sheet of the holding companies, whereas under the first method undistributed profits of and losses carried forward by subsidiary companies require to be taken into consideration in arriving at the value shown in the balance sheet. Under the second method, provided that profits of subsidiary companies not brought into the accounts of the holding company exceed losses carried forward in the accounts of other subsidiary companies, no adjustment to the book value of the holdings need be made but, of course, should the reverse position arise, a provision should be made in the accounts of the holding company for the amount by which the losses carried forward exceed the profits not brought in.

From the above it follows that if the second method is employed the published profit and loss account of the holding company will take a comparatively simple form, as normally the only credits will be dividends from subsidiary and allied companies, interest on advances to subsidiary and allied companies, interest on other investments and possibly transfer fees. The debits normally will comprise head office expenses, directors' fees, taxation and, of course, debenture interest, if any.

I feel that shareholders in a holding company are entitled to receive such information as to the financial position of a combine as will enable them to form an opinion as to whether the overall liquid position is satisfactory or otherwise, and as this information cannot be obtained from the balance sheet, it seems to me that the most obvious and practical course is to furnish shareholders with a statement showing the consolidated working capital position. This statement should incorporate the aggregate totals of cash, realisable investments, debtors and stocks and creditors, and should disclose the aggregate surplus or deficit of current assets as compared with current liabilities. It will, I think, then show clearly to shareholders the true liquid position of the combine. In addition, I suggest that it is necessary to let shareholders know the aggregate totals of long-term liabilities such as debentures and long-term loans, and of assets which, though not fixed assets, cannot be encashed in the ordinary course of business, such as advances to third parties not repayable until a date later than twelve months after the date of the accounts.

### CONSOLIDATED BALANCE SHEETS: THEIR ADVANTAGES AND DISADVANTAGES

During recent years a fairly wide demand has arisen that directors of holding companies should publish in addition to the statutory balance sheet a "consolidated balance sheet." I can appreciate that from a theoretical point of view the consolidated balance sheet may appeal to the uninitiated and in some of the more straightforward cases I have no doubt that it may be easy to prepare and unlikely to mislead seriously. It must, however, be borne in mind that the accounts of a public company are not available to shareholders alone, but are referred to by creditors who wish to decide whether to continue to grant credit. Assuming that a merchant allows credit to a subsidiary company on the strength of a consolidated balance sheet of the holding company and its subsidiaries, he may find subsequently that the particular company with which he was trading was insolvent and that he had received a false impression of its prosperity.

I am of the opinion that whatever the theoretical advantages or disadvantages of consolidated balance sheets may be, in the case of large international holding companies the practical difficulties are well nigh insuperable. Such a company may own holdings in some hundreds of subsidiary and allied undertakings scattered throughout the world and will almost certainly not hold 100 per cent. of the shareholding in all the subsidiary companies. If this be the position it is difficult to see how the assets and liabilities are to be apportioned when preparing a consolidated balance sheet. It would appear that either the assets and liabilities must be apportioned, or else the total assets and liabilities must be included and the proportion not attributable to the shareholding of the holding company must be represented by showing in the consolidated balance sheet shareholders who have no connection with the holding company as a form of creditor. Both these methods appear to me to be unsound. It may not in certain circumstances be possible to arrange that all the companies in a combine close their accounts at a common year-end, and if an endeavour is made to prepare a consolidated balance sheet of a number of companies whose accounts end on different dates a fictitious result might well be obtained. If an attempt were to be made to prepare and audit a consolidated balance sheet of a large international holding company a great delay might occur which would render the accounts when completed of little value.

I have had experience of the difficulties arising on the preparation of consolidated balance sheets of large international holding companies in circumstances much easier than those existing to-day, and have found that the time necessary to prepare even an approximately accurate account is so great as to render it impossible to produce it without so much delay that it will be virtually valueless when completed.

It should, I feel, be left to the directors of holding companies to decide in the circumstances of individual cases whether publication is either useful or practicable, provided always that they furnish shareholders with adequate information by some other method.

# MATTERS AFFECTING THE PROFESSION IN GREAT BRITAIN AND IRELAND\*

by

SIR NICHOLAS E. WATERHOUSE, K.B.E.

Chartered Accountant

## DEVELOPMENT OF THE PROFESSION

Though the work of an accountant now covers a vast field of activity and has reached a very high level of importance in this country, it is still one of the youngest of the professions. Indeed, a little more than a hundred years ago it was almost unknown; if a census of professional accountants had been taken in the year 1800 I doubt if it would have revealed the existence of more than about a hundred accountants in professional practice.

From the information which I have been able to gather it appears that in the year 1840 the total number of accountants in professional practice in the principal towns and cities in Great Britain and Ireland was less than five hundred, of whom roughly a hundred were practising in London and about the same number in Edinburgh.

Some idea of the way in which the auditing practice of professional accountants has expanded over the last forty years may be gained by a study of the growth in the number and aggregate share capitals of companies since the year 1900, when the appointment of auditors by companies became obligatory. At the close of that year there were just under 30,000 companies on the register in Great Britain and Ireland with aggregate share capitals of about £1,622,000,000. The present century has seen a vast expansion, and the latest available figures show that at the end of the year 1936 there were over 145,000 companies on the registers in Great Britain alone with aggregate paid-up share capitals of £5,735,000,000.

## INTERNAL REGULATION AND LAW

The statutory regulations as to the course which an accountant must follow in dealing with problems met by him in his daily occupation are remarkably few in number. Apart from certain special Acts of Parliament dealing with particular types of business specially incorporated, the outstanding statutory regulations affecting accountants are those which concern their appointment and duties under the Companies Acts. Every company is required at each annual general meeting to appoint auditors who hold office until the next annual general meeting. A retiring auditor is protected from arbitrary displacement from office by a provision that no other person shall be eligible for appointment as auditor unless notice of intention to nominate that other person has been given to the company and communicated by the company to the retiring auditor and to all the shareholders before the meeting. Directors and officers of the company, bodies corporate and persons who are in the employment of officers of the company are not eligible for appointments as auditors. It will be noted that in this respect the practice in Great Britain differs from that in some other countries, and particularly that firms of professional accountants in this country are virtually precluded from organising themselves as audit companies, for such companies, being bodies corporate, are not eligible for appointment as auditors.

The auditors have to make a report to the members on the accounts examined by them and on every balance sheet laid before the company in general meeting during their

\* A National Paper.

tenure of office. Their report has to state whether or not they have obtained all the information and explanations they have required and whether in their opinion the balance sheet presented to them by the directors is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them and as shown by the books of the company.

Every auditor has a statutory right of access at all times to the books, accounts and vouchers of the company and is entitled to require from the directors and officers of the company such information and explanations as may be necessary for the performance of his duty as auditor. He is entitled to attend any general meeting of the company at which the accounts which have been examined or reported on by him are laid before the company and to make any statement he desires with respect to the accounts.

In the case of companies which have followed good accounting practices and have prepared accounts which honestly set forth the position and earnings of the company, the auditors usually find themselves able to make a report in what is called an unqualified form. If, on the other hand, there is anything in the auditors' knowledge which prevents them from honestly believing that the accounts do present a true and correct view of the state of affairs, then it is their duty to indicate in their report in unequivocal terms the manner in which the accounts convey a wrong impression. It is a well-understood principle, supported by decisions in the Courts, that it is not sufficient for the auditors' report merely to arouse inquiry by shareholders; the report must go further and supply information as to what is wrong or the respects in which the accounts are defective.

Auditors have not only to see whether sound accounting principles have been applied by the directors but whether these principles have been consistently applied so as to admit of the comparison of the accounts for the current year with those of preceding years. Unless their inquiries under both these headings give affirmative results, the auditors have to consider the propriety of qualifying their report.

Another set of circumstances in which a qualified report may be necessary should also be mentioned. The directors may to all appearances (and sometimes in fact) have applied proper and consistent principles in preparing their accounts, but may be unable or unwilling to produce evidence to justify their decisions. In such cases the auditors have their duty to tell the shareholders in what respects the information obtained by them has fallen short. Their report must set out the respects in which verification has not been practicable or they have been unable to obtain satisfaction, and must go on to say that "subject to the foregoing" they are of the opinion that the balance sheet presents a true and correct view of the state of affairs.

It should, however, be noted that the report does no more than express the opinion of the auditors, based on their examination of the books and consideration of information and explanations obtained. They do not certify as to the state of fact but merely as to their opinion on the matters examined.

While referring to the auditors' duties in regard to their report on the balance sheet it may be well to mention that, although not specifically referred to in the report, the profit and loss account is as important as any of the other accounts the balances of which are included in the balance sheet. Where material amounts extraneous to the ordinary working are brought into, or charged against, the account of the year, their abnormal nature should be disclosed; if they are not disclosed in the accounts the auditors (if they think the non-disclosure material) should refer to it in their report.

With regard to an accountant's liabilities under the law, he is subject to criminal proceedings under the Larceny Act of 1861 and sections in the Companies Act, 1929, if he wilfully becomes a party to the presentation of any account which he knows to be false in some material particular. Cases brought against professional accountants under these provisions are very rare. Claims against professional accountants for breaches of duty are, however, sometimes brought in the civil courts, and over a series of years



precedents have been established which go some way to enable an accountant to ascertain his position should a client make a claim against him for the negligent performance of his duties. It is well established in law in Great Britain that an auditor is justified in believing the tried servant of a client in whom confidence is placed by the client, and provided he takes reasonable care he is entitled to assume that such servants are honest and that their representations are true. He may not be held liable for a failure to detect ingenious schemes of fraud where there is nothing to arouse his suspicion and when frauds are perpetrated by tried servants of the client and remain undetected for years by the directors. Where there is nothing to arouse suspicion it is justifiable for a professional accountant performing an audit of a company's affairs, to make a less extensive inquiry than in a case where his suspicions are or should be aroused. What is or is not a reasonable line for an auditor to take with regard to the extent of the inquiries which he makes and the explanations which he accepts depends almost invariably upon the circumstances of the particular case, and it is not possible to make any generalisation other than to say that he must be reasonably cautious and careful and honest in the carrying out of his duties.

There are no internal regulations which affect the accountancy profession in Great Britain and Ireland as a whole. The profession is not an organised body and there is no single authority which has control over it; the only internal regulations affecting professional accountants are those made by the various institutes and societies of which the large majority of practising accountants are members. There are, however, numerous persons in practice as professional accountants who are not members of any accountants' institute or society, and are therefore subject to no professional code other than the general law which affects them in common with all accountants, and any code which they themselves may voluntarily recognise as governing their practice. The internal regulations of the various societies differ considerably in matters of detail but they may be said to aim at a common objective.

#### FUNDAMENTAL PRINCIPLES OF PROFESSIONAL PRACTICE

As I have already stated, the profession of accountancy in Great Britain and Ireland is an open one, and though all practising accountants should no doubt be bound by the same code of professional ethics there are no means available of enforcing this on individuals unless they be members of one or other of the institutes or societies to which I have alluded.

##### *(a) Regulations on Advertising*

As in the case of the medical profession, members of all the important accountancy societies are forbidden to advertise. Indeed, any mention of an individual's or a firm's activities in the Press, except in connection with some specific matter of public interest in which he has been employed, is discouraged. In this connection it is sometimes difficult to draw an exact line between "news value" and advertisement, but in these cases the test as to whether the accountant has paid for, or in any other way inspired, the publicity may determine whether or not he has been guilty of conduct discreditable to the profession. Each alleged case is dealt with on its merits by the governing body of his society, and if the accountant is found guilty he is liable to be suspended from membership for a period or even excluded altogether. The same remarks apply to advertisements and notices in trade journals, directories and publications of that nature, and as an illustration of the importance attached to this matter it may be of interest to mention that on more than one occasion an accountant has been charged with discreditable conduct for so small an infringement of ethics as having permitted his name and address to be recorded, at the cost of a few shillings, in a public telephone directory in heavier print for the sake of easier reference. Any form of soliciting work or "touting" by circular, personal letter or orally is also strictly prohibited, though it is, of course, permissible, and indeed common practice, for a professional accountant to address circulars to his own clients notifying such things as the opening of a new branch or the admission of a partner.

#### *(b) Regulations as to Competition*

It is, of course, true that all firms of accountants practising in the same territory are in direct competition with one another, and the various institutes and societies would only intervene in cases where one of their members was considered to be acting discredibly in his effort to enlarge his clientèle. For instance, it is contrary to the etiquette of the profession to make any attempt to alienate the client of another accountant by letting it be known that one is prepared to perform the work for lower fees.

It often happens, however, that owing to a change in the ownership of a concern, a removal to a different locality, or even a dislike of the methods or personal habits of the accountant who holds office, a change is contemplated. In such cases there is no objection to some other firm accepting the appointment. Before doing so, however, the firm accepting office is expected to communicate with the firm whose services it is proposed to dispense with in order to ascertain that the reasons for the change are such as are put forward by the prospective client.

It will be appreciated that it is sometimes difficult after discussion with the superseded auditor to determine whether it would be in accordance with professional ethics to accept an appointment. If, however, on making inquiry it were found that the real reason for the proposed change was that the existing auditor had some serious and justifiable difference of opinion with his client on matters of accounting principle (such as the proposed method of statement of the accounts or as to the wording of his report) and, indeed, that the only thing against him was his insistence on the truth, then the acceptance of the auditorship by any other accountant might render him liable to suspension or even exclusion from membership of his professional association.

#### *(c) Regulation of Fees*

It cannot be said that there is any regulation in force in this country as to the fees properly chargeable by accountants for their services except so far as it is contrary to the best ethics of the professional bodies for remuneration to be calculated as a proportion of the pecuniary benefits accruing to the client as the result of such services, and the plan of "no cure, no pay" is looked upon with disfavour.

It may be said, however, that for general audits and similar work a fairly uniform scale of *per diem* charges has been adopted by most firms, varying with the class of assistant engaged in carrying out the work. A record is kept of the time expended on each job by partners, managing clerks, junior clerks and stenographers, and the charge is computed on this basis. If, as in many cases, a fixed annual fee for audit or other recurrent work is required by the client, the amount of this would be quoted to him as the result of an estimate prepared on the above lines. In certain highly specialised work, however, and for services in matters where the burden of responsibility is out of all proportion to a fee based on the normal time charges, it is usual for the accountant's remuneration to have special consideration and to be based to some extent on the relative value of his services. This applies particularly to receiverships and liquidations of companies where the fees are to a large extent fixed by the Courts and have relation more to the amounts realised as a result of the accountant's work than to the time spent by him on the matter.

#### *(d) Responsibility*

This is a very wide subject, and any attempt to discuss it fully here would result in this paper far exceeding the space allotted to it. The following remarks are only intended to convey some indication of the atmosphere of responsibility in which a conscientious practising accountant should go about his duties.

Broadly speaking, I think it may be said that the responsibility of a professional accountant is to see that the certificate to which he puts his name is not only a true one but that it and the accounts and reports which he prepares or certifies set out the facts in such a way as not to mislead. In arriving at his conclusions it is his responsibility to

satisfy himself by the exercise of his intelligence and by such inquiries and examinations of details as a reasonably minded business man would consider proper that his certificate or report may be relied upon for the purpose for which it is required. A statement may be true, but it may at the same time be highly misleading, and it is the responsibility of the accountant to make sure that though the figures which he is supporting are in themselves correct there has been no concealment of relevant facts which might materially affect the conclusions to be drawn from them. The publication of half the truth may often be quite as misleading as a lie, and the accountant must be prepared to bear the consequences if he puts his name to a half-truth which he could reasonably have known would mislead a person of normal intelligence.

On the other hand the question of a professional accountant's responsibility for loss incurred by a client due to the accountant's alleged negligence sometimes gives rise to delicate problems. Some people seem to look upon an audit fee as if it were an insurance premium, and they are therefore inclined, when irregularities have occurred in their organisations, to place the blame, whether merited or not, on the auditor and to attempt to recoup their losses from him. It is only fair to clients, however, to say that most of them, when satisfied that the auditor has served them loyally and carried out his duties conscientiously, are willing to take a reasonable view of the position. When they do not do so the accountant has the satisfaction of knowing that, as mentioned earlier in this paper, the Courts of Great Britain do not demand a standard of performance higher than can be attained by the exercise of reasonable skill and diligence in carrying out the work contracted to be done.

The aggregate membership of principal accountancy bodies was under 6,000 in the year 1900; it increased to about 12,000 by the outbreak of war, and is now approximately 30,000. Of these totals, approximately 4,000 members were in practice as professional accountants in 1900, the remainder being engaged in Great Britain or abroad as assistants to those in practice or in official positions outside the profession. The number of those in practice increased to over 6,000 by the outbreak of war and has since risen to nearly 12,000. From these figures it will be seen that, apart from the growth which has occurred in the number of unorganised accountants—as to whom there are no statistics—the expansion in the memberships of the professional accountancy bodies has been very great.

In conclusion, I would mention that in dealing with the various aspects of matters affecting the profession, I have followed as far as possible the order in which they are set out in the syllabus which has been issued by those responsible for the arrangements of the International Congress. I realise that to English readers my paper may appear to be of a somewhat elementary description, but I hope that the information I have given may be found useful for the purpose for which it is required.



# METHODS OF COMPUTING COST AND CONTROL OF PRICES BY PUBLIC AUTHORITIES\*

by

**SIR HAROLD HOWITT**

**Chartered Accountant**

## FORMS OF CONTROL IN CERTAIN INDUSTRIES

### GAS AND ELECTRICITY

It is convenient to consider these two industries together. Both, in view of the facilities they require for distribution, are subject to a considerable degree of control from the Board of Trade. Both can be called upon from time to time and in various ways to give an account of their stewardship, in particular when applying for additional powers. In the case of both gas and electricity undertakings, except where they are owned by municipalities, it may be said that the essential feature of their financial structure is a drive towards efficiency, by making any increased dividend dependent not, as is more usual, on an increase in charges, but on their reduction. This has recently been established by two main forms of control:—

- (a) By establishing a basic price for the product supplied, and providing that if the undertaking by reason of good management or other efficiency supplies in any year at a lower price, a portion of the "consumers' benefit" may, if finances permit, be paid to the shareholders as additional dividend, and to the employees in the form of co-partnership bonus.
- (b) By ensuring that the balance of any undistributed profits shall enure to the benefit of consumers in subsequent years, through the placing of a limit on the amount which may be carried forward at the credit of profit and loss account, or placed to reserve.

There is also one point of difference between the two industries which should be noted. The gas industry as a monopolist has since very early days been called upon to supply anyone within a certain distance of a gas main without insisting upon a minimum charge. Electricity supply companies, on the other hand, are free to refuse unremunerative custom and to insist upon a minimum charge. This matter is dealt with in detail in the Report of the Parliamentary Committee on Gas Prices which in 1937 inquired into complaints made by London consumers.

Apart from the above points of resemblance and of difference, the following special features of each industry may be of interest:—

*Gas.*—In the cases of companies controlled on consumers' benefit principles, Parliament fixes for each the "basic price" for its gas and the basic dividend which may be paid on its ordinary capital. In addition to the basic price system which regulates about half the country's gas supply, the older methods of control, namely, by sliding scale and maximum price, are still largely used. Under the sliding scale the ordinary dividend that may be paid varies inversely with the actual price charged, whilst maximum prices are related to maximum dividends. The gas industry has always resisted attempts to introduce the fixing of actual prices by Public Authorities, as it is thought this would prove a great handicap under the conditions of business to-day, which demand a high degree of flexibility. The prices generally include special rates for industrial consumers and for central heating, and in many cases a two-part tariff for domestic supply. In fixing these rates regard is had to three main considerations:—

- (a) Cost—with special reference to the circumstances of supply, volume, load factor, etc.

\*A National Paper.

- (b) The basic price and its effect on the margin available for dividend.
- (c) Competition and public opinion.

It will be realised that the basic price per therm is contrasted with the average price obtained for the total gas supply, and that no attempt is made to contrast it with the price charged to the different categories of consumer. It cannot be said that in the fixing of the basic price costing matters are dealt with on a defined basis, but so far as concerns the accounting of gas undertakings, it may be of interest to note that depreciation is normally dealt with on a renewals basis, and that the net proceeds of by-products, which are very considerable, are brought in as revenue, and so treated as a direct offset to the cost of coal.

*Electricity.*—Much the same type of problems arise in price fixing in electricity. There are, however, certain special features to be noted arising out of the reorganisation of the industry entrusted to the Electricity Commissioners—a body formed in 1919 with functions largely of an advisory and judicial nature. The progress of this reorganisation falls under the two heads into which the functions of the industry naturally fall:—

- (a) Generation, including the main transmission to the point where distribution commences.

- (b) Distribution from that point to the ultimate consumers.

The prices at which current is purchased and sold as between the selected generating stations and the Central Electricity Board under the Grid Scheme are controlled by prescribed regulations. In summary it may be said:—

- (a) The Board purchase all the output of the selected stations at cost of production as ascertained on a standardised basis.
- (b) The undertakers re-purchase from the Board all the current which they need to supply their consumers at the lower of the following alternatives:—
  - (1) The undertakers' own cost of production ascertained in accordance with the standardised basis with a proper addition to cover the Board's expenses; or
  - (2) The Board's standard tariff, which is framed so as to give the Board a revenue sufficient to cover its overheads.
- (c) Each undertaker can also claim an adjustment should it be proved that the cost of taking the supply from the Board exceeds that at which a like quantity of current could have been produced by the undertakers themselves under independent operation of their power stations.

In no industry is there more need for the accountant to keep in close touch with the technical staff in solving the costing problems that arise, and in the structure of control outlined above accountancy has had to pay its part in at least the following ways:—

- (a) The Central Electricity Board prescribed a system of cost ascertainment for the control of generation and the producing bodies have in most cases revised their accounts to bring them into line with these regulations.
- (b) The standard prices to London consumers were arrived at only after detailed inquiry into the requirements of the distribution companies. Indeed, it may be said that the London Electricity Act of 1925, in its treatment of this matter and of the sliding scale, deals almost entirely with accountancy questions.
- (c) It is doubtful whether the codification of depreciation charges is being carried further in any other industry. Not only for taking over the control of generating stations, but also for fixing the standard prices and sliding scales of the London distributing companies it has been necessary to classify all capital expenditure, to agree the permissible additions thereto for engineers and overhead expenses, and to lay down the rates and methods of amortisation. The rate applied in London has been a 3 per cent. sinking fund to provide the cost of the asset over its agreed life.
- (d) The restriction imposed upon undistributed revenue is entirely dependent upon accurate recording for its effective operation. In ordinary commercial circumstances the common tendency to over-reserve for expenses and losses may be permissible on grounds of prudent policy. In the controlled companies, however, such a practice would tend to deplete surplus revenue and so defeat, to the detriment of consumers, the object of the restrictions imposed thereon.

## TRANSPORT

*Railways.*—I do not propose to deal in detail with the main line railways, which by the Railways Act, 1921, were merged into four large companies. The principle of "rate control" in their case is somewhat analogous to that described under gas and electricity. The 1921 Act empowered the Railway Rates Tribunal, set up for the purpose, to fix rates and charges with a view to producing a "standard" revenue. This standard revenue was based on the net revenue of the year 1913, with appropriate remuneration for certain additional capital expenditure, plus a proportion of the economies rendered possible by the amalgamation. The method used by the Tribunal to arrive at the gross revenue to be produced by the rates they fixed was, broadly, to add to the 1913 net revenue the amount of remuneration for additional capital expenditure previously referred to, and an estimate of railway working expenditure based on post-war costs. From this total there was deducted an amount in respect of revenue from ancillary businesses and other sources of revenue, the charges for which are not subject to the jurisdiction of the Tribunal. In estimating the railway working expenditure the Tribunal was enjoined by the Act to take into account economies anticipated from amalgamations. The rates are reviewed by the Tribunal at the end of each financial year, with power to modify them. If the net revenue earned is in excess of the standard revenue the rates may be modified for the future with a view to producing a net revenue equal to the standard revenue plus 20 per cent. of the ascertained excess over standard revenue. If the net revenue earned falls below the standard revenue, rates may be increased to produce the required amount. In these periodical reviews the Tribunal is enjoined to have regard to any lack of efficiency or economy in the management.

The broad principle approved by the Tribunal in assessing the appropriate charges for renewals is the "provision basis." This method necessitates an annual charge to revenue equally over the anticipated life of the asset of a sum sufficient to produce the estimated replacement cost, after allowing for residual value. Government aid has been given in an indirect way by the Local Government Act, 1929, to certain users of railways.

In respect of local "rates" levied by the various Local Authorities on the railway companies' properties, the railway companies only pay 25 per cent., the remaining 75 per cent. being paid into a common fund administered by the Railway Clearing House. The railway companies out of the fund pay rebates on certain traffics on principles laid down by the statute. The Act provides that the loss to the Local Authorities is to be made good by the Treasury. It is intended that the railway companies should benefit by way of increased traffics encouraged by the rebates on carriage charges.

*London Passenger Transport Board.*—This authority has a virtual monopoly of London traffic, and as its fares are also subject to review by the Railway Rates Tribunal, a major incentive to efficiency in its case is the responsibility to pay certain returns on its stock. Under the London Passenger Transport Act, 1933, the rate of interest to be paid on the "C" stock is 5 per cent. for the first two years to July 1st, 1935, and 5½ per cent. per annum thereafter, with provisions for the increase of the annual interest to 6 per cent. if the revenue of the Board is sufficient. There is also the unusual provision for the appointment of a receiver of the undertaking by the High Court, if interest at less than 5½ per cent. per annum is paid for each of three consecutive years subsequent to June 30th, 1935. In these circumstances the basis of capitalisation of the concern is of primary importance, and accordingly it is of interest to note how it was arrived at.

The consideration given to the Underground group, which included the tube railways and the majority of the buses and trams, was laid down in the Act itself, having been the subject of previous settlement with the Government. Apart from certain preferential treatment to various unprofitable tram undertakings, it may be said that the main settlement was to give new stock to such an amount that its normal interest approximated to the interest paid on the old stock. There were certain minor differences said to be due to (a) deductions in respect of benefits arising from the protection of earlier Traffic Acts,

and (b) additions in respect of the unfructified nature of certain of the tube railway developments. In substance, however, stock was issued to the extent of the net asset value (without goodwill) of the previous undertakings, the largest portion thereof being the cost to date of the tube railways. In these calculations the interest on "C" stock was taken at the basic rate of 5 per cent.

The consideration then to be given to the bus and tram undertakings which had not been members of the Underground group was settled by arbitration. Their claim also to be given stock to an amount to equate their past earnings was refused by the Board, who offered instead stock to the amount of asset values, plus five years' purchase of profits. The basis of the award was not specified, but, though substantially higher than the Board's offer, its effect was to allot stock the interest charges of which were very materially less than the current profits of the vehicles taken over.

In spite of this margin in hand, the Board has not so far been able to pay the rate of interest on "C" stock specified in the Act.

*Airways.*—Airways have been helped by the Government by the payment of direct subsidies, and by indirect subsidies in the form of the provision of aerodromes and "aids to navigation," such as ground wireless and meteorological facilities, either free or by their provision at less than cost.

In order to arrive at the subsidy required, the operating company had to estimate its costs and income for many years in advance, allowing in its expenditure estimates for the share of management expenses attributable to the service concerned. After negotiation, the subsidies were settled in advance for long periods—ten years in the case of Imperial Airways' European and England-India services—and decreased in amount annually so as to give a direct incentive to the company to improve the economic position of air transport.

The European subsidy expires on March 31, 1939, and apart from this and certain small subsidies for minor routes and for aerodromes and "aids to navigation," payments by the Government have now merged into the Empire Air Mail scheme. Although these payments are divided into two separate parts, *i.e.*, a subsidy from the Air Ministry and "remuneration for the carriage of mails" from the Post Office, they may together be regarded as payment for services rendered, namely, for carrying mails to and from the Empire by air. The payments to the company are subject to revision to accord with the actual costs of fuel and oil and the actual mileage flown. Provision is also made for the Government to be paid one-half of any savings on the prime costs of operation and on obsolescence. As in the past, the Government's payments are based on a descending scale, but the Secretary of State for Air has the power in specified circumstances to remit the reductions.

The terms are an attempt to apportion on an equitable basis the risks of profit and loss between the company and the Government. In this enterprise of novelty and magnitude the Government protects the company in respect of certain factors involving costs over which the company has no control. On the other hand, the company has to accept the normal commercial risks, and has an incentive to increase its revenue and decrease its costs.

The Government, through its holding of all the deferred shares of the company, has the right to share in any profits earned beyond a level sufficient to enable the Board to declare a dividend on the ordinary shares of 10 per cent. in any year. The Government also appoints two directors to the Board. The rates to be charged for the carriage of passengers and freight are to be reasonable commercial air transport rates.

#### AGRICULTURE

*Milk.*—A Milk Marketing Board was set up in 1933 with power to prescribe prices. In practice a contract, normally made for one year, specifies the prices which the producer is to receive (a) for milk sold liquid subject to adjustment of various delivery and other expenses, and (b) for milk used for manufacture, this price being largely determined by



a formula related to the current prices of imported milk products. The contract also provides the minimum prices at which the distributor is to sell milk in liquid form by retail.

The Board collects the proceeds from the distributors and manufacturers and settles monthly with the producers on the basis of a "pool" price. This price represents a weighted average of the receipts from the sale of liquid or manufactured milk (plus an Exchequer subsidy in respect of milk passing into manufacture), less the expenses of the Board, and is ascertained on a regional basis. As a result, all producers, whether or not their milk is sold for manufacture, bear their share of the loss on that section of the trade. It must be appreciated that the Milk Board cannot fix prices in an arbitrary manner, but only after consultation with the distributors. The proposals of the Milk Reorganisation Commission of 1932 were that in case of dispute an independent body should be empowered to fix prices, but the producers would not agree to the inclusion of this proposal in their scheme. In the result the first years of the scheme saw bitter controversy in which chief emphasis has been laid by the producers on the alleged high costs of distribution of liquid milk.

*Bacon Pigs.*—A contract system was established under which producers bound themselves to supply a definite number of pigs at stated intervals over the following year at a defined price.

The negotiations for fixing the price gave the opportunity for Boards of producers and curers to examine and criticise the methods and costs of each other. There is no doubt this has resulted in substantial improvements both in quality of product and in costs. At the moment the contract system is in abeyance, though by mutual consent the framework of the schemes in other respects is being maintained.

*Livestock.*—The executive responsibility for the Government's plans has been entrusted by the Livestock Industry Act, 1937, to a Livestock Commission whose main duties may perhaps be briefly summarised thus:—

- (a) To distribute a specified annual sum (which incidentally exceeds the proceeds of the Customs duty) as subsidy to home producers. This subsidy is paid in two grades, and is devised to encourage efficiency by the differentiation it makes in favour of quality cattle; nothing at all is paid in respect of cattle that do not comply with a minimum standard.
- (b) To license livestock markets and to close those considered redundant or inefficient.
- (c) To organise the erection, with Exchequer assistance, of three central experimental slaughter houses in districts to be selected and to close other slaughter houses in those areas.
- (d) The compilation of information in order to improve market intelligence.

Although no specific formula has been devised, the Livestock Commission will no doubt be expected to relate efficient costs to market prices in order to advise from time to time what alterations, if any, should be made in the rates of cattle subsidy.

*Hops and Potatoes.*—The marketing of these two products is controlled by Producers' Boards—the former from 1932 and the latter from 1933—whose schemes have been as successful as any operated under the Agricultural Marketing Acts.

There is a substantial import duty on both hops and potatoes, while, like the pigs and bacon schemes, the potatoes scheme is accompanied by the quantitative regulation of the imported supply; in the case of the hops scheme, there is an informal understanding with the buyers regarding the volume of purchasable imports. The Hops Board negotiates selling prices, and in 1934 made an agreement with its sole customers—the brewers—by which an average price of £9 per cwt. was fixed for all hops sold by the Board for five years—a price which is intended to represent cost plus a fair profit. Provision is made for adjustments if producers' labour costs increase by more than a certain amount. In addition, the brewers pay a levy on all hops sold by the Board, and the fund so created is used for the purchase for destruction of the unsold balance of the quantity agreed each year between the parties to represent the "estimated market demand."

*Sugar and Wheat.*—These products are regulated by separate Acts, and in each case a Commission is charged with the duty of supervision and control. As in the case of live-stock, assistance is given in the form of a subsidy related to market prices and costs, though not specifically calculated on them.

In agriculture generally, the only steps so far taken towards setting up co-ordinating machinery have been the setting up of advisory and investigational bodies, namely :—

- (a) *The Food Council.*—A non-statutory body with the duty of considering questions relating to the supply and prices of articles of food in general consumption and of considering complaints. It reports to the Board of Trade, and has recently issued a report in relation to milk costs.
- (b) *Consumers' Committees.*—These have the duty of considering and reporting to the Minister on the effect, on consumers, of producers' marketing schemes under the Agricultural Marketing Acts and on any complaint which may be made to the Committees as to the effect of the schemes on consumers' interests.
- (c) *Committees of Investigation.*—These consider reports of Consumers' Committees referred to them by the Minister and also complaints from other sectional interests, *e.g.*, producers, wholesale buyers, auctioneers or manufacturers. They report to the Minister, who may, in certain circumstances, intervene to require the Board concerned to rectify the matter in complaint, or, subject to Parliament, he may amend or revoke the scheme.

#### COAL

The steps taken by the Government in this industry towards lowering costs and regulating prices have been directed towards :—

- (a) Regulation of the production, supply and sale of coal.
- (b) Mergers of coal undertakings.
- (c) Acquisition of mineral royalties by the State.

*Regulation of the Production, Supply and Sale of Coal.*—This end was achieved by the institution of selling schemes under Part I of the Coal Mines Act, 1930. The schemes provide for standard tonnages of output and supply to be allocated to each colliery, and machinery is available by which these standards may be reviewed from time to time.

There is considerable variation between the schemes for different districts, and some go so far as to have central selling and even sharing of proceeds.

The fixation of prices is in a large measure left in the hands of the coalowners or their agents, while the protection of the consumer is left in the hands of the Committee of Investigation. The actual fixation is done after consultation between the coalowners or their agents in each district, while machinery is provided to ensure co-ordination of prices as between districts. It is a breach of the regulations for coal to be sold below the prices thus agreed upon and fixed, punishable by severe monetary penalties. Although regard is paid to variations in district conditions, costs, as such, are not considered in detail in relation to the day-to-day fixing of prices, as indeed they cannot be for the reason that prices are being fixed in respect of differing qualities, size and grade of coal, while costs in the coal trade are, so far at least, average costs of all qualities produced. It would seem to be impracticable, if not impossible, to determine the cost of each separate quality, size and grade of coal produced in a coal mine.

The Committees of Investigation do, however, use costs as a measuring rod in considering whether a price, in respect of which a complaint has been lodged, bears a reasonable relation to the average cost of the district, regard being had to the other qualities, sizes and grades produced and the prices applicable thereto.

*Mergers.*—Mergers were the province of the Coal Mines Reorganisation Commission set up by Part II of the Act. The function of this Commission was to form an opinion as to whether any scheme of reorganisation was called for in any given area, and, if so, to take steps to bring it about. Its first attempts were to get the collieries concerned to

put up their own schemes voluntarily, but not having much success in this direction it exercised its statutory powers in certain areas by calling for the necessary information and formulating its own schemes of merger. A major task was to arrive at a fair valuation of the collieries which it was proposed to merge, and for this purpose a joint report was normally prepared by accountants and mining engineers. The schemes were in most cases bitterly opposed by the owners and they failed to materialise, largely because the conditions which had to be satisfied according to the Act proved in practice to be self-contradictory or impossible of fulfilment.

In some areas, however, voluntary mergers somewhat on the same principles as the Commission's schemes have been put into effect, and the principles of valuation may be of interest in so far as they give an indication of costs and profit capitalisation, which factors naturally have a bearing on the ultimate price of coal.

The broad principle of valuation was normally to arrive at a capital sum for which the estimated profits would be sufficient to provide a reasonable dividend and a sinking fund for redemption. Such profits were estimated for a maximum period of 50 years or such shorter period as was covered by the available reserves of economically workable coal. A reasonable basis of yield for capitalisation calculations (after provision for sinking fund) was taken by the Commission in 1932 to be about 12 per cent., though certain mergers since that date have adopted a lower rate of yield. Depreciation of machinery and management expenses were estimated at agreed figures per ton of output, the former figure varying according to the degree of mechanisation underground.

*Acquisition of Mineral Royalties.*—The Government accordingly took in hand the question of acquiring all coal royalties, and in 1937 appointed an arbitration tribunal to assess their value on the understanding with the owners that whatever the figure it would be accepted by them. This was assessed at £66,450,000, or 15 years' purchase of the estimated annual net income. Legislation is proposed by which this purchase consideration is to be satisfied in cash raised by the issue of a loan, and its apportionment among the various owners, having regard to the special features of their royalties, will be a complex problem.

#### IRON AND STEEL

The control of prices in this industry is maintained through the British Iron and Steel Federation in conjunction with the Import Duties Advisory Committee. This Committee, on whose advice depends the degree of tariff protection imposed on imports since 1932, has recently—in June, 1937—issued a voluminous report dealing with the development of the industry, its technicalities and difficulties, and with the steps that have been taken to secure efficiency and to control prices.

Trade associations are affiliated to the British Iron and Steel Federation. There are various cartel arrangements for the limitation of imports and otherwise.

The Federation, in consultation with the associations concerned, agrees upon a representative number of selected makers whose costs are to be investigated. Uniform statements of costs prepared by an independent accountant are issued to the selected makers for completion. The statements are designed to show (a) actual costs as appearing in the maker's own records over a recent period (usually three months) applying average stock prices for raw material and fuel; (b) adjusted costs, applying market prices as shown by forward contracts and other evidence for raw materials and fuel, and giving effect to any increases in operative costs—e.g., wages, stores, etc. Information is also provided as to average realised prices, and as to the statistical position of forward contracts for both purchases and sales.

In the light of the information contained in the accountant's reports the Federation—through its independent chairman—discusses and agrees with representatives of the respective associations, the amount, if any, of the increase in price to be granted, but no increase is put into operation until the Import Duties Advisory Committee, with whom the independent chairman also discusses the matter, has approved. No precise formula for



the determination of such increases is followed, but particular regard is had to the possible effect of the proposed increase on the trade of the industry and the economic welfare of the country, the margin of profit or loss shown in the recent past period of operation, and the increase in cost of raw materials and fuel and other costs under current and future conditions. The prices thus fixed apply for a specified period, at the termination of which the position is again reviewed in the same way. The arrangement has been affected by the conditions arising in a period of advancing raw material prices, and doubtless similar considerations will be given effect to if and when raw material prices turn the other way.

#### ARMAMENTS

In connection with the manufacture of armament materials by private firms on behalf of the Defence Departments of the Government, it may be broadly stated that there are three main methods used in fixing the basis of payment for materials supplied:—

- (a) *Price Fixing by Competitive Tender.*—The usual commercial practice of placing orders by competitive tender is adopted in the case of those materials which are manufactured by several firms and for which a competitive market therefore exists, these conditions being met in connection with all classes of naval construction.
- (b) *Price Fixing by Technical Costing.*—With regard to those armaments for which a competitive and free market does not exist, the Government rely on technical costing as a means to price control, and in giving effect to this it is usual for estimates of wages and material costs to be prepared by both the contractor and the technical costing experts of the Government Department concerned. Discussions then take place between these parties, with the result that definite amounts are agreed for these two items of cost, leaving for adjustment the question of oncost, which has to be dealt with separately, and also the profit margin.
- (c) *Maximum Price Contracts.*—This method allows for the price being determined on the basis of ascertained costs plus an agreed percentage for profit, subject however to a limiting or maximum price which has to be agreed between the contractor and the Government. The type of contract known as "time and line," and which requires no maximum price to be stipulated, is rarely used, being only admitted in isolated and exceptional instances.

In dealing with oncost on those contracts which are subject to investigation by the technical and accounting staffs of the Government, it should be mentioned that this item of expense could, until recently, be so agreed as the appropriate percentage on wages ruling at the time the order was placed. When manufacture, however, is spread over two or more years, and when production is to be rapidly increased, as under the current defence programme, a new problem naturally arises in relating the rate of oncost to the expanding wages bill.

This problem and also that arising out of the proper spreading of research and experimental expenditure has been particularly prominent in connection with aircraft, and special arrangements have been entered into between this industry and the Government. The principle has been adopted for the new aircraft to be costed in batches, and for prices to be settled by any one of the following methods:—

- (a) One or two batches, in number agreed previously, are produced, and paid for on the basis of ascertained costs, plus an agreed profit margin. Fixed prices may then be agreed for the remainder of the contract.
- (b) If after completion of the agreed batches a fixed price cannot be settled, endeavours are then made to agree upon a maximum price for the remainder, on the understanding that if the eventual cost plus the agreed rate of profit is less than the maximum price, the difference will be shared between the contractor and the Government in an agreed proportion. If the cost, plus rate of profit, exceeds the maximum price, the maximum price will be effective.
- (c) If neither a fixed price nor a maximum price can be agreed, the contractor may adopt the basis of ascertained costs plus profit, *i.e.*, "time and line," but this method will only be adopted by the Government as a last resort.

In connection with aircraft manufacture, the following points may be of interest :—

- (a) A "break clause" indemnifies the contractor against loss if the contract should be curtailed, and a "capital clause" entitles him to compensation if he finds at the end of his contracts he is unable usefully to employ the additional equipment with which he is left. The compensation referred to is limited to any loss in the difference between the written-down value of his capital assets and the market value of such assets at the termination of the expansion programme, and if it is established that an excessive profit has been earned by the contractor this factor will be taken into consideration in arriving at any sum agreed as compensation.
- (b) Experimental expenditure is included in overheads, on the basis of the average unrecovered expenditure of the three most recent years. Losses representing development costs are taken into account in the year the machine is handed over to the Government.
- (c) The charge for depreciation and obsolescence is in accordance with income tax allowances.

Printed in Great Britain by  
T. WHITTINGHAM & CO. LTD.  
50 Southwark Bridge Road  
London, S.E.1



West of Scotland members was held in the Central Station Hotel on October 25.

Mr. Robert T. Dunlop, President of the Scottish Branch, occupied the chair, and, in introducing Mr. Holman, said he was glad to see such a large attendance of members.

After thanking the members of the Scottish Branch for their hospitality and for the opportunity afforded him of meeting the officers and members of the Scottish Council, Mr. Holman paid a high tribute to the work of the Secretary, Mr. James Paterson. He then referred to the visits he had paid on behalf of the Society to America last year and to Germany this year, and said there was one feature common to both those countries which had impressed him greatly, namely, the magnitude of the expenditure being made in development.

Referring to public expenditure in general, Mr. Holman maintained that the rising tide of national and municipal expenditure was calculated to mislead people into thinking that the words "waste" and "economy" had lost their meaning, and he called on accountants to remain firm to the principle that economy, by which he meant wise expenditure, was the royal road to business success and that waste was the "unforgiveable sin."

In acknowledging a vote of thanks proposed by Mr. J. Stewart Seggie, Mr. Holman said that the Scottish Branch could be congratulated in having two such energetic representatives on the London Council as Mr. R. T. Dunlop and Mr. James Paterson. In replying to a vote of thanks proposed by Mr. Ledingham, the Chairman said he hoped all the members present would become interested in the Society's journal ACCOUNTANCY, both for its articles and for law reports which they would find valuable in their practice.

#### Glasgow Students' Society

The opening meeting of the winter session of this Society was held in the Constitutional Club, Glasgow, on October 25, when an address on "Studying for the Society's Examinations" was given by Mr. F. D. Greenhill, C.A. Mr. W. Davidson Hall, President of the Students' Society, occupied the chair, and was supported by Mr. Walter Holman, President of the Society. There was a large attendance.

Mr. Holman, who was warmly received, said he thanked the Committee for inviting him to their opening meeting. He agreed with Mr. Greenhill that they were not so much concerned with the brilliant student as with the large body of average students, and while candidates for the Society's examinations had their difficulties and worries, so had the Examiners who, he assured them, endeavoured to carry out their onerous duties in the most careful and conscientious manner possible. The Glasgow Students' Society, said Mr. Holman, were very fortunate in having as their President Mr. W. Davidson Hall, who took such a practical interest in their work, and had instituted the fund from which prizes were given to Scottish candidates taking Honours in the examinations. Mr. Holman then presented Mr. John A. Stewart, Glasgow, with the W. D. Hall Prize—in this case, a wristlet watch. Mr. Holman congratulated Mr. Stewart, and stated that to attain second place in the Honours List he must have had very excellent papers. Mr. Stewart expressed his thanks.

## DISTRICT SOCIETIES

### LONDON

#### Dinner to the Right Hon. Lord Stamp

Members of the Incorporated Accountants' London and District Society gave a dinner to the Right Hon. Lord Stamp, G.C.B., G.B.E., on Friday, October 21, to celebrate his elevation to the Peerage by His Majesty The King. Mr. E. Cassleton Elliott, F.S.A.A., chairman, presided.

A report of the speeches is given on pages 73/76.

Among those present were Sir Arthur Street, K.B.E., C.B., Mr. Walter Holman (President of the Society of Incorporated Accountants), Sir James Price, K.B.E., C.B., Mr. C. Hewetson Nelson, J.P., Mr. C. J. G. Palmour (President, the Institute of Chartered Accountants), Herr W. Jaeger (Secretary, Fifth International Congress on Accounting), Mr. L. C. Blackmore Bowker, O.B.E., M.C. (City Remembrancer), Sir Harold Bellman, M.B.E., Sir Thomas Keens, D.L., Mr. W. H. Coates, Ph.D., LL.B., Mr. W. E. Digginge, Mr. Percy Toothill (Vice-President of the Society of Incorporated Accountants), Mr. B. A. Glanvill, J.P., Mr. Arthur E. Watson, C.B., C.B.E., Mr. W. A. Pearman (Vice-Chairman), Hon. W. Carlyle Stamp, M.A., Mr. H. J. Page (Chairman, Chartered Accountants London Members Committee), Mr. Henry Morgan, Mr. A. de V. Leigh, M.B.E., M.A., Mr. Hargreaves Parkinson, B.A., B.Com., Mr. Arthur Collins, Mr. Austin Reed, Mr. Oscar R. Hobson, M.A., Mr. R. B. Dunwoody, C.B.E., Mr. C. S. Louch, Mr. Frank H. Elliott, J.P., Mr. S. Bayliss Smith, Mr. J. W. Ramsbottom, M.A., M.Com., Mr. J. C. Rea Price, Mr. I. T. Little, B.Sc., Mr. A. A. Garrett, M.B.E.

A meeting of members will be held at Incorporated Accountants' Hall on Wednesday, November 9, at 6 p.m. at which the Chairman, Mr. E. Cassleton Elliott, will preside. There will be a discussion on "The Scope of Mechanised Accounting." The subject will be introduced to members in a short paper by Mr. W. J. Back, Incorporated Accountant. After discussing the subject in four groups, the members will assemble in the large hall to review their discussion.

Tea will be served at 5.30 p.m.

### BELFAST

The Belfast and District Society held the first meeting of the season on Monday, October 17, when Mr. H. McMillan, F.S.A.A., gave a paper on the Finance Act, 1938. Mr. McMillan briefly outlined the various changes in income tax law introduced by this Act, and referred to the legal decisions, in consequence of which some of the clauses were inserted in the 1938 Act. An interesting discussion followed, in which the following members took part:—Mr. Norman Booth, Mr. James Baird, Mr. Robert Bell, Mr. D. T. Boyd, B.Com.Sc.

The newly-elected President—Mr. E. A. Anderson—expressed his gratification at seeing so many members present, and thanked Mr. McMillan for his paper.

### BIRMINGHAM

#### SYLLABUS OF MEETINGS, 1938-39

Date.	Meeting.	Lecturer.
	BIRMINGHAM	
1938		
Sept. 26	Golf Match with H.M. Inspectors of Taxes, Birmingham	
Oct. 14	Students' Discussion Group: Statistics	A. P. Bardell, F.S.A.A.
Oct. 21	Lecture: Some Ideas on Modern Auditing with reference to Mechanical Accounting. (By invitation of the Birmingham Chartered Accountants' Students Society.)	R. T. Walters, M.A., F.C.A.
Nov. 11	Dance at the Midland Hotel	
Nov. 18	Lecture: Budgetary Control	W. H. Stalker, F.S.A.A.

- Nov. 25 Students' Discussion Group: Economics A. P. Bardell, F.S.A.A.  
 Dec. 5 Lecture: The Crisis in the Far East, with Special Reference to the Financial Side. (By invitation of the Chartered Institute of Secretaries.) Sir Frederick Whyte, K.C.S.I.

- 1939  
 Jan. 13 Lecture: The National Defence Contribution W. J. Back, F.S.A.A.  
 Jan. 27 Annual Dinner at Queen's Hotel  
 Feb. 3 Students' Discussion Group: Income Tax A. P. Bardell, F.S.A.A.  
 Feb. 10 Lecture: Methods of Investigation for Business Reorganisation. (By invitation of the Institute of Cost and Works Accountants. To be held at the Chamber of Commerce.) W. Coultts-Donald, C.A., F.C.W.A.

- Feb. 24 Lecture: The Calling and Conduct of Company Meetings and recent important Case Law Decisions E. Westby-Nunn, B.A., LL.B.  
 Mar. 17 Students' Discussion Group: Costing W. H. Stalker, F.S.A.A.

- Apr. 14 Golf Match between members of the District Society: Birmingham v. Rest of the Midlands  
*Lectures are held at 6.30 p.m. at the Law Library, Temple Street, Birmingham, unless otherwise stated. Students' Study Circle Meetings are held at 7.0 p.m.*

## WOLVERHAMPTON

- 1938  
 Nov. 3 Lecture: The Secretary and World Affairs. (By invitation of the Chartered Institute of Secretaries. To be held at the Wolverhampton and Staffordshire Technical College, Wolverhampton)

## LEICESTER

## SYLLABUS OF MEETINGS, 1938-39

- | Date.   | Meeting.   | Lecturer.                                       |
|---------|--|---|
| Oct. 19 | Lecture: Germany's New Economic Methods in the Far East. (Joint Lecture with the Chartered Institute of Secretaries) | The Hon. Harold Nicholson, C.M.G., M.P.         |
| Oct. 21 | Lecture: Company Flo-tation  | R. F. Cartwright, LL.B.                         |
| Oct. 24 | Luncheon. At 1 p.m. at the Grand Hotel   |   |
| Nov. 4  | Lecture: Accounting Problems for the Student   | H. A. R. J. Wilson, F.C.A., F.S.A.A.            |
| Nov. 18 | Lecture: Death Duties  | E. Westby - Nunn, B.A., LL.B., Barrister-at-Law |
| Dec. 2  | Lecture: Income Tax  | Victor H. Bayley, F.C.A., F.S.A.A.              |
| Dec. 14 | Students' Dance. At Grand Hotel, 8 p.m. to 1 a.m.  |   |

- 1939  
 Jan. 13 Lecture: Liquidations C. A. Sales, LL.B., F.S.A.A.

- Jan. 23 Luncheon. At 1 p.m. at Grand Hotel  
 Jan. 27 Lecture: Executorship Accounts A. E. Langton, LL.B., A.C.A., A.S.A.A.  
 Feb. 10 Lecture: Sale of Goods S. Shaw, LL.B., Barrister-at-Law  
 Feb. 24 Question Night  
 Mar. 10 Lecture: Accounting Provisions of the Companies Act, 1929 E. Westby - Nunn, B.A., LL.B., Barrister-at-Law  
 Mar. 24 Lecture: Practical Points in Company Work W. J. Back, F.S.A.A.  
 Apr. 24 Luncheon. At 1 p.m. at Grand Hotel  
*Meetings are held at 6 p.m. at the Oriental Café, Market Place, Leicester, unless otherwise stated.*

## MANCHESTER

## SYLLABUS OF MEETINGS, 1938-39

- | Date     | Meeting   | Lecturer   |
|----------|---|--|
| 1938     |   |  |
| Oct. 13† | *Lecture: Examination Hints on Mercantile Law   | E. Westby - Nunn, B.A., LL.B.  |
| Oct. 28  | *Mock Company Meeting   |  |
| Nov. 18  | *Lecture: Public Issues of Capital  | W. J. Back, F.S.A.A.   |
| Nov. 30† | *Lecture: A New Monetary Policy. Joint Meeting with Manchester Branch of the Chartered Institute of Secretaries   | J. Shepherd, Economic Adviser to the Federation of Master Cotton Spinners' Association, Ltd. |
| Dec. 6   | Annual Dance at Manchester, Ltd., Restaurant  |  |
| Dec. 9   | *Lecture: Examination Hints on Auditing   | W. Richmond Murray, A.S.A.A.   |
| 1939     |   |  |
| Jan. 20  | *Lecture: Executorship Accounts   | R. Bibby, A.C.A.   |
| Jan. 27  | *Short Papers by Students   |  |
| Feb. 17  | Lecture: The Powers and Duties of Liquidators   | A. V. Hussey, A.S.A.A.   |
| Feb. 24  | *Discussion   |  |
| Mar. 17  | Annual Dinner at Midland Hotel  |  |
| Mar. 24  | *Annual Meeting followed by Mock Insolvency Meeting   |  |
|          | <i>Meetings will be held at 6.30 p.m. in The Estate Exchange, 46, Fountain Street, Manchester, unless otherwise indicated</i>   |  |
|          | * Students' Meeting   |  |
|          | † Memorial Hall, Albert Square  |  |
|          | † Blackfriars' Hall, Blackfriars Street   |  |
|          | Discussion meetings at which points arising in practice, matters connected with accountancy research, etc., will be discussed, will be held in October, November, December, January, February and March. Separate announcement of the dates, subjects and venue will be made. |  |

## SOUTH WALES AND MONMOUTHSHIRE

## SYLLABUS OF MEETINGS, 1938-39

- | Date.   | Meeting.  | Lecturer.                            |
|---------|---|--------------------------------------|
|         | CARDIFF   |                                      |
| 1938    |   |                                      |
| Oct. 28 | Lecture: Debentures                                   | D. B. Levinson, B.A.                 |
| Dec. 8  | Lecture: Stock Exchange Practice and Procedure        | W. J. Back, F.S.A.A.                 |
| 1939    |   |                                      |
| Feb. 2  | Lecture: National Defence Contribution and Income Tax | H. A. R. J. Wilson, F.C.A., F.S.A.A. |
| Feb. 22 | Lecture: Management Methods in the United States      | R. A. Witty, F.S.A.A.                |
|         | NEWPORT   |                                      |
| 1938    |   |                                      |
| Nov. 9  | Lecture: Executorship Law                             | F. A. Roberts, A.S.A.A.              |



- 1939  
Mar. 8 Lecture: Income Tax W. W. Stanley  
Schedule A

### Cardiff and Newport Students' Sections

- NEWPORT
- 1938  
Oct. 20 Joint meeting. Lecture: Arthur B. Watts,  
Cinema Accounts and F.S.A.A.  
their Audit
- CARDIFF
- Nov. 19 Lecture: Some Special Ivor Davies, A.S.A.A.  
Points on Auditing  
Nov. 23 Annual Dinner-Dance at  
Whitehall Rooms Park  
Hotel  
Dec. 15 Discussion: Errors and  
Mistakes. (Paper)
- 1939  
Jan. 14 Lecture: Practical Talk J. Wallace Williams,  
on Liquidations F.S.A.A.  
Feb. 9 Lecture: Income Tax Dennis H. Morgan,  
F.C.A.  
Feb. 25 Lecture: Some Aspects K. V. Stephens, B.A.,  
of Sinking Funds A.S.A.A.  
Mar. 16 Demonstration Lecture:  
Powers-Samas Account-  
ing Machines  
Apr. 1 Students' Meeting
- NEWPORT
- 1938  
Nov. 19 Short Papers by Students  
Dec. 15 Annual Dinner-Dance at  
King's Head Hotel  
Dec. 16 Short Papers by Students
- 1939  
Jan. — Lecture: The Stock Ex- Stanley Freeguard  
change. (Date to be  
arranged)  
Feb. 11 Short Papers by Students  
Mar. 17 Lecture: An Approach to Noel Cliffe, A.S.A.A.  
Economics  
*Cardiff Students' Meetings are held at the Silver  
Lounge, Cardiff.*  
*Newport Students' Meetings are held at Fearis' Café  
and the Queen's Hotel, Newport*

### YORKSHIRE

The opening meeting of the present session was held on October 4. His Honour Judge Frankland gave an address on the new Hire Purchase Act.

The District Society Committee made arrangements for a series of three classes for students preparing for the Society's examinations, and for other students who wish to attend. The classes were held from 11.0 a.m. to 12.0 noon in the library of the District Society on October 8, 15 and 22.

### PERSONAL NOTES

Mr. A. E. Deason, Incorporated Accountant, has commenced to practise at 109, Orsett Road, Grays, Essex; also at East Ham and Leigh-on-Sea. The style of the firm will be H. W. Carpenter & Co.

Mr. H. Livingstone, Incorporated Accountant, has been appointed City Treasurer of Bangor, North Wales.

The Society was represented at the annual dinner of the Institute of Accountants and Actuaries in Glasgow, held on October 24, by Mr. Walter Holman, President of the Society, and Scottish Incorporated Accountants were represented by Mr. Robert T. Dunlop, President, and Mr. James Paterson, Secretary, of the Scottish Branch.

Mr. F. C. R. Moule, Incorporated Accountant, has commenced public practice at Tavistock Chambers,

Beastmarket Hill, Nottingham, and not at Birmingham, as stated in the last issue of ACCOUNTANCY.

We understand that Mr. Walter Phillips, Incorporated Accountant, who has been Chief Accountant of A. Guinness, Son & Company, Ltd., Dublin, for many years, is about to retire. Mr. Phillips intends residing in England.

The Incorporated Accountants' District Society of Nottingham, Derby and Lincoln has removed its library and offices to 5, Fletcher Gate, Nottingham.

### CHANGES

Captain Herbert E. Davis, M.C., Incorporated Accountant, of 83, Fore Street, Moorgate, E.C.2, announces that he has admitted into partnership Mr. F. G. Spreadbrow, Incorporated Accountant. The practice will be carried on as Davis, Kellie & Co., Incorporated Accountants, at 83, Fore Street, Moorgate, London, E.C.2.

Mr. H. P. Gowen, Incorporated Accountant, practising at 7, Queen Street, Norwich, under the style of Harman & Gowen, has taken into partnership Mr. R. F. Dewing, Chartered Accountant, Mr. F. G. F. Platten, Incorporated Accountant, and Mr. F. S. Smith, Incorporated Accountant. The firm name will be unchanged.

### REMOVALS

Messrs. Stanley Wallis, Carter & Co., Incorporated Accountants, announce a change of address to 5, Fletcher Gate, Nottingham.

Mr. Ernest Rukin, Incorporated Accountant, has removed his offices to 70, Queen Street, Morley, near Leeds.

Messrs. Grundy, Middleton & Co., Incorporated Accountants, are now practising at Fountain House, 81, Fountain Street, Manchester, having removed from 1, Brazennose Street.

Messrs. Lewis Tuck & Co., Incorporated Accountants, have removed their offices to Barclays Bank Chambers, 69, Park Street, Camden Town, London, N.W.

Mr. Harry Harris, Incorporated Accountant, formerly of Nottingham, is now practising at Langham House, 308, Regent Street, London, W.1.

### OBITUARY

#### Francis Edward Clements

We record with regret that Mr. F. E. Clements, F.S.A.A., died on September 26 at the age of 70. Mr. Clements was the senior partner of Messrs. Clements, Hakim & Co., Incorporated Accountants, London, and had been in public practice since 1906. He was previously for several years in the office of Messrs. C. S. Kemp, Son & Co., Chartered Accountants (now Messrs. Kemp, Chatteris, Nicholls, Sendell & Co.). He became a member of the Society of Incorporated Accountants in 1909 and a Fellow in 1915.

Mr. Clements was a keen Freemason and a founder and Past Master of the Incorporated Accountants' Lodge.



am,

ated

A.

any

ling

r of

rary

ated

C.2.

Mr.

The

Co.,

gate,

prac-

le of

R. F.

tten,

incor-

ged.

rated

o 5.

has

near

rated

ouse,

from

ants,

bers,

merly

ouse,

ments,

Mr.

ments,

, and

s pre-

C. S.

fessrs.

ecame

tants

under

tants